

Summary of capital outputs

The table below shows the specification of work programmes to maintain and improve levels of service and quality compliance.

Base maintenance	<ul style="list-style-type: none"> Investment in the existing assets will maintain levels of service to existing consumers. Completion of planned safety work at impounding reservoirs.
Maintain and enhance consumer service	<ul style="list-style-type: none"> Investment in trunk mains to Newry and Belfast to improve security of supply. Investment in the water distribution network to reduce interruptions to supply and reduce the number of properties supplied at low pressure by 288. Investment in the sewerage network to address the risk of internal flooding at 67 domestic properties. Investment in systems and management to improve NI Water's response to consumer queries and complaints.
Improve water quality compliance	<ul style="list-style-type: none"> Completion of two water treatment upgrades to secure the quality of drinking water. Continued investment in water distribution mains to improve the water quality at the tap as part of a programme to rehabilitate a further 445 km of mains.
Improve environmental compliance	<ul style="list-style-type: none"> Investment in 34 wastewater treatment schemes to improve the quality of discharge from works >250 population equivalent. Upgrading of 96 unsatisfactory intermittent discharges to meet quality standards.
Growth and supply demand balance	<ul style="list-style-type: none"> The company will be able to continue to connect new properties to the water and sewerage network. Investment at sewage treatment works will address development constraints due to lack of capacity.
Improve sustainability	<ul style="list-style-type: none"> Improvements to existing assets, levels of service and quality enhancements will contribute to a sustainable service. Further reductions in leakage will reduce water lost, targeting the sustainable economic level of leakage (ELL). The company will determine a sustainable long run ELL which will inform leakage targets for PC15. The proportion of renewable energy used will increase and energy efficiency measures will be implemented. The company will extend the sustainable catchment management approach it has developed with stakeholders. A drought plan will be prepared to assess how the company would respond if drought conditions exceed those planned for in the water resources management plan. The company will continue to improve its asset data including water supply area investigations and drainage area plans. Feasibility and development work will be undertaken to ensure the continuity of output delivery into PC15.

Consultation on the draft determination for PC13 closes at 5.00pm on 8 November 2012. Responses should be sent to caspar.swales@uregni.gov.uk or Caspar Swales, Utility Regulator, 14 Queen Street, Belfast BT1 6ER. For further information on PC13, contact +44 (0)28 9031 6346.



2013 to 2015 price control draft determination: summary

Background

The Utility Regulator's role is to promote the interests of water and sewerage consumers and ensure that they receive best value for money. One of the ways in which we do this is by setting charges/price limits that allow NI Water to deliver water quality and environmental and customer service objectives at the lowest reasonable overall cost. We do this through a 'price control' process, where we determine how much revenue the company is allowed, and therefore the charges passed on to consumers for the period in question.

This draft price control determination (called PC13) sets out our proposed price limits for water and sewerage services during the two years 2013-15. Overall, our PC13 proposals indicate that NI Water requires £691 million of revenue. Our proposals are based on benchmarking costs and objective scrutiny of NI Water's performance.

This is the second price control that we have carried out for NI Water. Indications are that NI Water will successfully deliver its first regulatory price control, covering 2010 to 2013. This will have saved consumers more than £91 million over the last three years. This draft determination now challenges NI Water to deliver a saving of £70 million, over the shorter 2013 to 2015 period.

Key benefits

Lower charges for consumers - charges will fall by an overall average of 7% below inflation in each of the two years.

Reduction in charges: typical consumer bills

	Actual 12-13	NIW 13-14	UR 13-14	NIW 14-15	UR 14-15	NIW PC13 saving	UR PC13 saving
Bills (2012-13 prices)							
Average notional household¹	424	418	395	414	367	16	86
Typical unmetered	273	259	246	247	222	40	78
Typical small metered	382	370	352	357	324	37	88
Typical large metered	3468	3,356	3,194	3,248	2,942	332	800

Note: The notional household charge is provided as domestic consumers are not billed.

A more efficient company - for every £1 spent by comparative water companies in England and Wales, NI Water currently spends £1.62 on running its operations. We are challenging the company to reduce this 38% operational efficiency gap.

Investment in water and sewerage assets - we have allowed for £336 million of prioritised and targeted investment, maintaining the efficiency levels in PC10, to deliver specified infrastructure improvements.

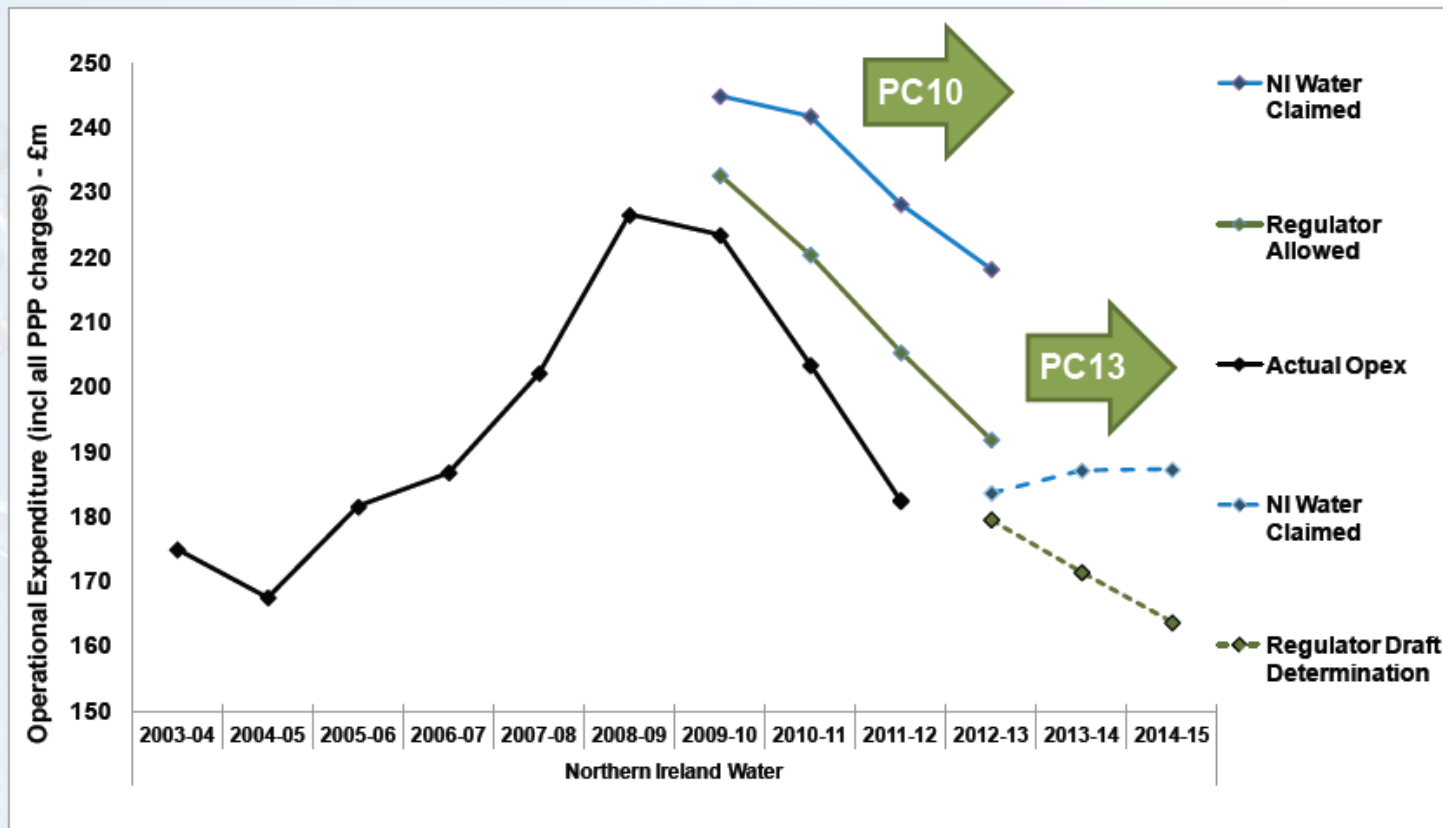
Higher levels of service - an improvement in the 'overall performance assessment' (OPA) score, moving from 131 at the start of PC10 to 215 by close of PC13. This will narrow the gap to the average water company performance of 290.

The operational efficiency challenge

NI Water has steadily improved its operational performance while reducing its operating costs since the company first came under the scrutiny of economic regulation in 2007. The operational efficiency gap to the best performing company in England and Wales was assessed as 49% in our first price control (PC10). For PC13 it has been assessed as 38%.

This efficiency gap means that for every £1 that comparative English and Welsh water companies spend in running their operations, NI Water now spends £1.62 compared to the £1.96 in 2007.

The operational efficiency improvements during PC10 and the challenge provided by the PC13 draft determination are depicted in the graph below.



The graph shows NI Water's claim, our allowance and the company's outperformance of PC10. PC13 challenges the company to reduce its core costs by a further 6% per year over the two-year period. The company's business plan indicates a rise in operating costs over the period and sets itself an efficiency challenge of 1.7% per year.

NI Water outperformed the PC10 allowance and NI Water's management must now continue to rise to the challenges ahead. In this way, billed consumers and taxpayers of Northern Ireland will not have to pay more than is necessary for their vital water and sewerage services.

NI Water is being challenged to achieve what other companies have already delivered. Of particular note is Scottish Water, which reduced its operating costs by almost 40% over eight years, while at the same time continually improving services to consumers.

NI Water's governance framework

In the absence of domestic charging, NI Water depends on a government subsidy for around 76% of its revenue. As a consequence, NI Water is now classified (for the purposes of public expenditure funding) as both a government owned company in legislation and a non-departmental public body. This 'hybrid' status adds a layer of complexity to the company's governance framework. There are a number of related issues that we have taken into account in this draft determination:

- The regulatory framework focuses on incentives, especially incentives to outperform. The public expenditure regime's focus is spending to budget.
- A degree of risk has transferred back to taxpayers as the company has no access to reserves and the capital budget is restricted by allocation advised from public expenditure, rather than informed by strategic investment needs.
- The company has claimed that the current hybrid governance model halves the rate at which it can deliver efficiencies.

We have worked with the Department for Regional Development and agreed processes for managing changes to budget allocations and to manage risks. However, NI Water's governance framework is not optimal.

Targeted service improvements

The graph below shows the services to be improved and the impact on the OPA score. Early indications are that the company is ahead of schedule in PC10, based on targeted 2012-13 performance. More improvements are required to achieve the average OPA performance of the companies in England and Wales.

